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USSR: The Soviet leadership has decided to adopt the production association form of industrial organization, according to TASS. Lagging industrial investment and the persistent failure to translate research into usable technology have added impetus to the repeated demand for change in industrial management over the last three years.

The new decree aims at consolidating industrial enterprises and corresponding research and development facilities into production associations under a single management over the next three years. Production associations will assume the authority formerly vested in the enterprises. The decree also proposes that ministries concentrate their efforts on long-range problems.

Many mergers in Soviet industry would be sound because there are unrealized economies of scale and of specialization. In addition, uniting research and development with production is a good beginning toward eliminating inefficient and uncoordinated applications of research and development. Such structural changes, however, do not alter the system of incentives that has hindered application of research and development in the past. Success of the new associations, moreover, depends on avoiding difficulties that reduced the effectiveness of similar associations in the past. Many mergers have resulted in economically unsound combinations of enterprises. Associations may not gain any flexibility if production targets and material allocations continue to be handed down from above. Difficulties can also arise when an association cannot control semi-independent subordinate enterprises.

While these problems could be ironed out in time, there almost certainly will be strong resistance to the associations by ministries, enterprises, and many local governments. Ministerial bureaucracies and enterprise managers are likely to resist

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attempts to reduce their power and independence. Some local governments are very concerned that they will lose control over local industrial development and sources of finance. But some regional interests, such as Leningrad oblast officials, have promoted the concept of associations as a means of enhancing their status in industrial management.

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USSR-CHINA: A senior Soviet official told the US Embassy in Moscow on 2 April that there had been neither any improvement in Sino-Soviet relations recently nor any serious border incidents. Mikhail Kapitsa, one of the USSR's leading Sinologists and a ranking official of the Foreign Ministry, acknowledged that the border talks in Peking are still stalemated by the same issues that have hampered progress since the talks began in 1969.

He said that to allay Chinese concerns about negotiating under duress, Moscow had added to its earlier proposals--for non-aggression and non-use of nuclear force agreements--a suggestion that the 1950 mutual defense treaty be "reconfirmed." According to Kapitsa, the Chinese rejected or turned aside all of these proposals.

Kapitsa took some comfort from the fact that the border itself has been quiet with "no shooting" and "only occasional" violations by herdsmen. He predicted that the trade negotiations presently under way in Moscow would lead to an agreement of at least the same magnitude as last year. In 1972, total Sino-Soviet trade amounted to about $250 million, a figure still somewhat short of the level of trade prior to the Cultural Revolution and about 10 percent of the 1959 trade turnover.

Kapitsa's remarks were intended to portray the Chinese as the obstructionists and to dissuade the US from seeking to capitalize on Sino-Soviet differences. Nevertheless, they appear to jibe fairly well with other available reporting on the current state of Sino-Soviet relations. 25X1

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USSR-CHINA-UN: The Soviets plan to place their non-use of force proposal before the UN Security Council this month in an apparent continuation of a "peace initiative" aimed primarily at the Chinese.

Last fall, the General Assembly adopted a Soviet resolution on the subject despite vehement Chinese objections. Peking cast one of four negative votes and the Western powers abstained.

The present follow-on Soviet text couples a general prohibition against the use of force with a call for non-use of nuclear weapons. Soviet delegates last fall admitted privately that they would regard a violation of the general prohibition as negating any commitment to honor the nuclear prohibition.

Late last month, Soviet UN delegates began circulating their draft to non-aligned members of the Security Council. They have told some that they want to inscribe the subject on this month's agenda and will do so once they have lined up maximum support to counter Peking's anticipated opposition. The Chinese in turn have made it clear that they will fight against inscription and will "attack" the Soviet resolution vigorously if it comes before the Security Council.

Agenda inscription requires nine affirmative votes and is not subject to a veto. The US mission doubts that the Chinese will obtain the seven abstentions needed to keep the resolution off the agenda. Garnering the essential nine votes for the resolution itself may prove more difficult for the Soviets, however, because only eight of the present Security Council members voted for it in the General Assembly. [redacted] 25X1

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INTERNATIONAL MONETARY DEVELOPMENTS: The dollar yesterday reached its highest levels in Europe since the joint float was introduced on 19 March. London currency dealers attributed the strong dollar demand to speculators who were divesting some of their holdings of other currencies acquired during the recent currency crises, but there also was evidence of growing commercial demand. Nevertheless, late afternoon profit-taking yesterday indicates continuing uncertainty in the market.

German intervention again was required yesterday to support the mark, currently the weakest currency in the joint float. The Bundesbank reportedly sold as much as $20 million worth of French francs and a smaller volume of Norwegian and Danish kroner, which are at the top of the European band.

The lira, one of the independently floating European currencies, has shown increasing weakness in recent days, falling slightly below its Smithsonian level. The Bank of Italy, which had been purchasing dollars to recoup reserves lost in the crisis, has recently intervened to support the lira, presumably by selling dollars and perhaps European currencies. [redacted] 25X1

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BANGLADESH-PAKISTAN: The division of responsibility between Dacca and Islamabad for foreign debt remains unresolved because Pakistan refuses to recognize Bangladesh and Dacca refuses to discuss anything with Islamabad without recognition.

During a meeting last weekend with aid donors, Bangladesh refused to accept responsibility for any portion of the Pakistani debt, but did not rule out eventual acceptance. The members of the Aid-Pakistan Consortium, including the US, made their pledges of new aid, other than humanitarian assistance, conditional on a resolution of the debt problem. Humanitarian aid, mainly foodgrains, was pledged without reservation.

A week earlier, the consortium had adjourned its meeting with Pakistan without reaching an agreement on the issue of dividing the debt. Pakistan contended that the liability for servicing debts attributable to its former East Wing should pass to Bangladesh on 30 June. Pakistan, however, offered to accept an extension of its responsibilities to the end of the year if the consortium would then absolve it of Bangladesh's portion of the debt. The consortium rejected Pakistan's position and made new pledges of aid contingent on Pakistan's maintaining responsibility for all debt liabilities until a settlement is reached.

Both sides may be trying to use the debt question to further political objectives. While neither party's motivations are clear, Islamabad may hope that its reluctance to pay the Bangladesh debt will encourage donors to resolve the impasse by pressing Dacca to agree to repatriation of some 90,000 prisoners of war. Dacca may hope that donors will pressure Islamabad into recognition or a division of foreign assets.

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BURMA: Rangoon expects severe rice shortages and may be forced to shift some of the domestic rice trade to private hands. [redacted] 25X1

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Shortages this year are expected to be worse than in 1967, when rioting erupted throughout Burma because the government continued to export rice at the expense of domestic consumption.

To avert a repetition of the 1967 experience, the government is attempting to localize rice shortages and avoid public knowledge of the situation by controlling domestic press coverage. In addition, ships arriving to pick up rice for Bangladesh and Indonesia in February were loaded clandestinely offshore. The government can conceal details of the situation only temporarily, however, because insufficient rice stocks will ultimately cause shortages.

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25X1 [redacted] the government soon will be forced into taking some measures to alleviate the situation, which may include allowing larger amounts of rice to be sold privately. While such moves probably won't be sufficient, the government appears to have no other alternative.

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MOROCCO-SPAIN: A fishing incident seems certain to aggravate tensions between the two governments.

On 2 April, a Spanish Air Force patrol strafed a Moroccan Navy vessel that was escorting a Spanish fishing boat caught poaching in Morocco's newly claimed territorial waters. The only casualty apparently was a wounded Moroccan crew member; the fishing boat and its crew are being held by the Moroccans in Agadir.

Alleged poaching by Spanish fishermen has long caused problems between Rabat and Madrid. A fishing agreement negotiated in 1969 was abrogated by Morocco last December. The situation was further complicated a month later when the King announced that Morocco had unilaterally extended its territorial waters to 70 miles. This policy was subsequently clarified by a decree fixing territorial jurisdiction at 12 nautical miles and an exclusive Moroccan fishing zone within a 70 nautical mile limit. Considerable pressure has been exerted on both governments by their respective fishing industries.

Following Rabat's rejection of a Spanish note expressing Madrid's "formal reservations" on Morocco's extension of its territorial waters, Foreign Minister Lopez Bravo last week paid a 24-hour visit to Rabat and reportedly reached an agreement that direct negotiations between the two countries' private fishing sectors would be given a trial; these private talks are scheduled to begin in Malaga next week. Anticipated sensational press treatment of the new incident could threaten the talks and delay settlement of the dispute. 25X1

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JAPAN-CHINA: Talks resumed in Peking last week on the proposed Chinese sale of oil to Japan, but an agreement is not likely to be concluded soon. Earlier discussions were broken off in February when the Japanese refused to accept the price suggested by the Chinese because it was more than ten percent above the Indonesian price for a comparable quality of low sulfur oil. In the interim, however, the price of Indonesian oil has risen to the $3.70 to $3.80 per barrel range previously sought by the Chinese, and Tokyo now expects Peking to demand an even higher price. Tokyo is unwilling to pay a premium price even for the relatively small quantity of oil being negotiated. The amount of oil in question represents less than one percent of Japan's annual oil imports. [redacted] 25X1

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